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Railroad Credit, Rates and Service

THE low earnings of the railroads for the past eighteen months have had a serious effect upon the credit of the steam lines. So serious, indeed, has been this effect, that the roads as a whole are now faced with a situatioı wherein it is impossible for them to obtain new capital to increase the efficiency and economy of their operation. This situation has a vita bearing upon both railway rates and railway service.

Ever since 1921 the trend of railway freigh rates and passenger fares has been steadil downward. Likewise, ever since 1921 there ha been a continuous improvement in the efficienc of rail operation. In testifying before the In terstate Commerce Commission in connectioı with the petition of the railways for a 15 pe cent increase in their freight revenues, R. H Aishton, president of the American Railwa Association, said:

"It is, in my opinion, a fundamental fact tha the greatest part of the increase in efficienc and economy that has taken place in the pas few years is due to the very large capita expenditures that have been made by the rai roads for improved locomotives, cars, signal trackage, and other things leading directly t operating efficiency. It is also my opinio that the hope of future economies and ef ciencies in operation depends, in major d gree, upon a continuation of the policy replacing the less efficient types of cars, loc motives, and other appliances, and in a co tinual improvement of the operating conditioı on the railroads through a liberal expenditu of capital."

But, as stated, the railways generally cann now secure this new capital so vital to ef

ciency and economy of operation. H. A. Scandrett, chairman of the special committee of presidents representing the Western lines, told the Interstate Commerce Commission:

"The credit of the Western carriers is so impaired that few of them could now obtain money for additions and betterments by the sale of their securities at a price in keeping with prudent management. In the case of the Milwaukee Road, plans were made for the purchase of 40 modern freight locomotives and for improvements to 25 locomotives now owned. This program, which had to be abandoned because of the unfavorable financial situation, would have resulted in savings of $639,295, or 16 per cent on the investment per year. On account of the drastic decline in revenues it was necessary for the Milwaukee Road to cancel, from its 1931 budget for capital improvements, expenditures amounting to $4,518,000, of which $1,035,634 would have produced estimated savings of $333,516, or 32 per cent. I know from conversations with officers on other lines that many, if not all of them, have been forced to curtail similarly their improvement programs for the same reason that forced our action on the Milwaukee."

Further, F. R. Dick, representing the Security Holders' Committee on the Railroad Emergency, told the Commission that out of $7,562,500,000 par value of railroad bonds at present on the New York State list of legal investments for savings banks and trust funds, $5,748,500,000, or 76 per cent, will be removed from this list at the end of 1931, on the basis of present railway earnings. Out of the 67 railroads in the country with gross revenues, in

1929, of over $10,000,000, Mr. Dick stated that only 35 have had sufficient net income in recent years to qualify their bonds as legal investments for savings banks in New York. Unless conditions are immediately corrected, he continued, the bonds of 20 of these roads are certain to be removed from the New York legal list at the end of this year. If this occurs, the position at the beginning of 1932 will be that the bonds of only 15 railroads in the United States will be eligible for savings bank investments in New York, and even some of these will be close to the danger line.

Pointing out that the New York State Banking Law is generally accepted as a standard by private investors, Mr. Dick told the Commission that present conditions mean that practically no railroad in the country can now obtain capital in the general market, and that their future outlook for new capital is highly uncertain.

In the last nine years our railways have invested more than $7,000,000,000 of new capital in their properties. This investment has materially increased the economy and efficiency of railway operation, permitting substantial reductions in rates and placing the quality of railway service upon the highest level ever reached. Now, as shown, the railways are faced with an emergency which so seriously threatens their credit that they can no longer obtain funds to improve their properties.

Railway credit can be preserved only by a moderate increase in railway freight rates which the railways are asking from the Interstate Commerce Commission. If railway credit is destroyed, higher railway rates and poorer railway service will inevitably follow.